

FISCAL NOTE
SB 58 - HB 88
FIRST EXTRAORDINARY SESSION

April 12, 1999

SUMMARY OF BILL:

1. Reduces the sales tax from 6% to 4%.
2. Repeals the Hall income tax.
3. Removes present law requiring distribution of the Hall income tax between the General Fund, counties, and cities.
4. Imposes a 4% tax on the Tennessee taxable income of every individual. The tax would be based on an individual's federal adjusted gross income, excluding combat pay for members of the military as provided by the Internal Revenue Code.
5. Adds the following income to an individual's Tennessee taxable income:
 - Interest on another state's obligations minus related expenses to the extent not deducted from federal income, unless the obligation was created by an agreement to which Tennessee is a party.
 - Interest or dividends on obligations or securities of the federal government that are exempt from federal income tax but not state income taxes, minus related expenses to the extent not deducted from federal income.
 - An organization's gross income from any unrelated trade regularly carried on by such organization.
6. Subtracts the following income from an individual's taxable income, to the extent such income is included in federal adjusted gross income:
 - Income derived from obligations, or the sale or exchange of obligations, of the federal government that are exempt from state income taxes under federal law
 - Income derived from obligations, or the sale or exchange of obligations, of Tennessee.
 - Social security benefits subject to federal income tax under the Internal Revenue Code, Section 86.
 - A deduction equal to the amount used to compute the federal credit for the elderly and the permanently and totally disabled by a retiree under 65 years of age, who qualified for retirement on the basis of a permanent and total disability and who retired on disability before the close of the taxable year, however, a person who claims a subtraction for this deduction would be prohibited from claiming a deduction due to being 65 or more years of age or blind.
 - The amount of any refund or credit for overpayment of income taxes imposed by Tennessee or any other taxing jurisdiction.
 - The lesser of 39 days' pay or \$3,000 from National Guard service by persons ranked O3 or below.
 - Up to \$10,000 per year received as a reward for being a squealer, except that law enforcement agents, a victim or perpetrator of the crime for which a reward is paid, or any person paid to investigate crimes or accidents would not be eligible for such subtraction from Tennessee taxable income.

7. Deducts the following items from federal adjusted gross income to determine an individual's Tennessee taxable income:
 - The amount of a taxpayer's itemized deductions from federal income tax or a personal exemption of \$6,000 for the taxpayer and each of the taxpayer's dependents.
 - A \$6,000 deduction for persons who are 65 year of age or older or blind.
8. The income tax that this bill would impose would be for state purposes only, and municipalities and counties would be prohibited from levying such tax.
9. Provides for an effective date of July 1, 1999.

ESTIMATED FISCAL IMPACT:

Increase State Revenues - Net Impact \$1,296,895,500 FY00

Increase State Expenditures - Dept. of Revenue

\$3,000,000 Recurring

\$2,000,000 One-Time

Decrease Local Govt. Revenues - \$66,375,000 FY00

Estimate assumes:

- Based on information provided by the Department of Revenue, the Comptroller's Office, and 1996 federal data, taxable income of Tennessee residents would generate approximately \$2,714,520,500.
- Eliminating the Hall income tax would result in an estimated annual revenue loss of approximately \$177,000,000 in FY00.
- Decreasing the state sales tax from 6% to 4% would result in an estimated annual revenue loss of approximately \$1,307,000,000 for FY00.
- The net increase in state revenues for FY00 would be calculated as follows: $[2,714,520,500 - (177,000,000 \times .6250) - 1,307,000,000] = \$1,296,895,500$.
- The decrease in local government revenues for FY00 resulting from the elimination of the Hall income tax is estimated to be \$66,375,000 $[177,000,000 \times 0.3750]$.
- Hall income tax is apportioned 5/8ths to the state and 3/8ths to local governments.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James A. Davenport, Executive Director